

Assisting student credit union members highlights importance of financial literacy

Chairman Johnson honors Martin Luther King Day by volunteering

NCUA Chairman JoAnn Johnson used the Martin Luther King, Jr. holiday as an opportunity to highlight the importance of financial education when volunteering January 22, 2008, at an elementary school branch of State Department FCU in Alexandria, Va. Chairman Johnson joined State Department FCU CEO Jan Roche and other credit union personnel for a hands-on session assisting student members of the credit union at Jefferson Houston Elementary School.

"I am proud of the volunteer spirit embodied by the thousands of credit union activists"

"It is fitting to honor Dr. King's legacy by volunteering to help make a difference by promoting financial literacy to our youth," said Chairman Johnson. "The sooner America's youth receive the resources of financial education, the better decisions they will make for the rest of their lives," stated Chairman Johnson. "I commend the State Department FCU and other credit unions for the important financial literacy commitment they demonstrate to America's youth."

"In addition, I am proud of the volunteer spirit embodied by the thousands of credit union activists who



January 22, 2008, Alexandria, Va—Chairman JoAnn Johnson and State Department Federal Credit Union Account Coordinator Margaret Evans with volunteer student tellers as they welcome and enroll new members and take deposits at the Jefferson Houston Elementary School in Alexandria, Va. Chairman Johnson also read a book about the wise use of money to a classroom and had lunch with the credit union's student tellers during her visit.

not only devote their time and energy to credit unions, but other endeavors as well. America's communities are better places thanks to the willingness of our fellow citizens to serve in volunteer capacities. It truly is a higher calling and for credit unions, it comes naturally."

In 1994, Congress passed the King Holiday and Service Act, which celebrates Dr. King's legacy by turning community concerns into citizen action. This act has encouraged many Americans to participate in projects that enhance and bring together local communities.

HIGHLIGHTS

- 2 NCUA issues record grant awards ■ Hood encourages NCIF participation ■
- 3 Board actions ■ Balance sheet management ■ Operating and deposit adjustment fees ■
- 4 Conversations with America ■ Johnson announces Hope NOW Hotline ■ Woodson becomes NCUA CFO ■
- 5 NCUA to host 20 CU workshops in 08 ■ CAMEL Matrix being eliminated ■
- 6 Hyland facilitates examination issues webinar ■

NCUA issues record number of grant awards in 2007

The NCUA Office of Small Credit Union Initiatives (OSCU) utilized earnings from the Community Development Revolving Loan Fund (CDRLF) and a Congressional appropriation of \$940,500 to award \$1.5 million in technical assistance grants to low-income credit unions.

The Office received 575 applications from credit unions requesting more than \$4 million in grant funds from the CDRLF, four times the amount available from appropriations. The Office was able to award 315 grants, either in full or in part.

Grants were awarded using five grant initiatives designed to assist credit unions provide new and better services to their members and to strengthen their operations. 2007 grant initiatives included:

- Building internal capacity;
- Enhancing member services;
- Staff, official, and board member training;
- Student internship; and
- Volunteer Income Tax Assistance.

Also, the Urgent Needs Grant continued to provide financial assistance to credit unions experiencing unplanned or unexpected costs.

Some examples of how credit unions used 2007 grant funds to improve services include:

- Adding new services, such as ATM machines, debit cards, electronic bill paying;
- Designing and implementing websites for informational and online banking;
- Providing financial education for members and the community in different languages for homebuyers and as part of the Volunteer Income Tax Assistance program;

- Attending training courses, purchasing on-line libraries, participating in webinars, and conducting on-site trainers;
- Exposing student interns to credit union operations and management;
- Improving operations through the purchase of new technologies;
- Operating and participating in Volunteer Income Tax Assistance sites.

A list of grants provided to individual credit unions is available online at <http://www.ncua.gov/ReportsAndPlans/CDRLF/statements.html>.

Technical Assistance Grants Awarded

Initiative	Dollars	Percent	Number
Building internal capacity	333,581	22.3%	66
Enhancing member services	661,375	44.3%	78
Staff, official, and board training	169,600	11.4%	77
Student internship	89,500	6.0%	30
Urgent needs	128,486	8.6%	45
VITA	111,633	7.5%	19
Total	\$1,494,175	100.0%	315

Vice Chairman Hood works to expand CU participation with NCIF



Vice Chairman Rodney H. Hood encourages credit unions to expand participation with the National Community Investment Fund (NCIF), a non-

profit, private equity trust that invests in banks, thrifts and credit unions that generate both financial and social returns for low- and moderate-income people and communities.

“Credit unions located in urban or rural areas and on Native American lands or reservations can qualify,” Vice Chairman Hood noted. “The NCIF provides an excellent opportunity for low- and moderate-income community focused credit unions to reach out and offer more folks credit union service. I encourage

you to seriously consider this excellent partnering opportunity.”

Since inception in 1996, NCIF has invested \$23.9 million in 37 financial institutions nationwide. Learn more at <http://www.ncif.org/index.php/about/>.

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

JoAnn Johnson, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

Information about NCUA and its services may be secured by contacting 703-518-6330.

Office of Public & Congressional Affairs
 Cherie Umbel, *Editor*

National Credit Union Administration
 1775 Duke Street
 Alexandria, VA 22314-3428

Visit the NCUA website
<http://www.ncua.gov>
 to access the latest
 information directly
 from NCUA.



Board actions January 24, 2008



ANPR addresses merger and conversion issues

The NCUA Board issued an advance notice of proposed rulemaking (ANPR), to Parts 708a and 708b, seeking comments on member rights and ownership interests in relation to federally insured credit union mergers, conversions and insurance terminations. NCUA is also seeking comments on merger or conversion from a federally insured credit union to a financial institution other than a mutual savings bank. Currently, NCUA does not have regulations governing these transactions.

The primary focus of this ANPR is to protect member interests where members have a great deal at stake because transactions involve fundamental changes in ownership or the structure of the credit union; including, in some cases, termination of a credit union charter or termination of insurance. Amendments being considered include issues relating to communications to members, voting integrity, fiduciary duty obligations for board members, and member interest in credit union equity; for example, through merger dividends.

Mergers and conversions are legally permissible; however, member ownership can be diluted or eliminated and members may have fewer voting rights or be deprived of the security of federal share

insurance protection. These transactions raise numerous issues that current regulations may not adequately address.

The ANPR is issued with a 60-day comment period.

Interest rate ceiling maintained at 18 percent

The NCUA Board voted to maintain the 18 percent interest rate limit for loans made by federal credit unions for a new 18 month period. This interest rate is the maximum permissible rate a federal credit union may charge for its loans. The action on the renewed rate is effective March 10, 2008 and expires September 10, 2009.

Board votes are unanimous unless otherwise indicated



Balance sheet management

Credit risk: fair value of investments

Credit unions should closely monitor changes in the fair value of privately-issued investments for signs of credit deterioration. While some declines in fair value are caused by changes in interest rates, other declines may be caused by changes in perceived credit risk.

Declines in fair value may materially impact liquidity strategies and ultimately impact net worth. Credit unions should avoid undue concentrations of credit risk to any one obligor.

There are three types of investment credit risk. Fluctuation associated with

- **Default risk** is the risk an issuer will fail to timely pay interest and principal to bond holders. If default occurs, investors lose some or all of their investment depending on the recovery rate.
- **Credit spread risk** is the risk that the yield premium investors demand over and above the risk free yield (US Treasuries) will increase (or “widen” as market participants say) and cause the price of the bond to decline, since market yields and bond prices move in opposite directions. Typically, investors demand a higher spread when they perceive default risk is rising. If spread

goes up, price goes down.

- **Downgrade risk** is the risk that a credit rating assigned by a rating agency (e.g., Moody’s Investors, Standard & Poor’s, etc.) to a bond issue or issuer will be lowered. A downgrade reflects deterioration in perceived credit quality and an increase in expected probability of default. Thus, a rating downgrade, if not anticipated by investors and already reflected in a lower price, results in a decline in the price of the downgraded instrument.

Regular review of market price information helps alert management to potential shifts in the credit risk component of investments. Market participants’ perceptions of credit risk are reflected in the market prices of securities.

Undue exposure to investment credit risk should be identified and measured. It can be properly controlled by deliberately diversifying holdings across investment types and sectors and adhering to prudent concentration limits for issuers and obligors.

Operating and deposit adjustment fees due in April

Federal credit unions will receive an invoice in March 2008 for the annual operating fee and, if required, the amount needed to maintain 1 percent of insured shares in the National Credit Union Share Insurance Fund (NCUSIF).

The operating fee and the capitalization deposit adjustment will be based on assets and insured shares reported for December 31,

2007. Payments are due by April 15, 2008.

Letter to Federal Credit Unions 08-FCU-01, online at <http://www.ncua.gov/letters/letters.html>, contains details and revised operating fee scales for natural person and corporate federal credit unions.

Please contact the Office of the Chief Financial Officer at 703-518-6570 with any questions.

Conversations with AMERICA



My Government Listens

Date: Tuesday, February 19, 2008

Who: Chairman JoAnn Johnson

Event: Iowa CUL Legislative Issues Conference

Location: Des Moines, IA

Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Thursday, February 28, 2008

Who: Chairman JoAnn Johnson

Event: Gulf Coast Chapter of Credit Union's Annual Meeting

Location: Panama City, FL

Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Tuesday, March 4, 2008

Who: Chairman JoAnn Johnson

Event: CUNA Government Affairs Conf.

Location: Washington, DC

Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Tuesday, March 4, 2008

Who: Vice Chairman Rodney Hood

Event: CUNA Government Affairs Conf.

Location: Washington, DC

Contact: Sally Thompson at sridgely@ncua.gov

Date: Tuesday, March 5, 2008

Who: Board Member Gigi Hyland

Event: CUNA Governmental Affairs Conf.

Location: Washington, DC

Contact: Jessica Vogel at jvogel@ncua.gov

Correction—In 2008, NCUA will be reviewing the last third of its regulations, Parts 748 – 796, as part of its regulatory review process.

Date: Thursday March 6, 2008

Who: Board Member Gigi Hyland

Event: ABA Steering Committee: Identity Theft, Phishing and Information and Security Governance

Location: Washington D.C.

Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Tuesday, March 11, 2008

Who: Board Member Gigi Hyland

Event: CU Business Group National Conf.

Location: Scottsdale, AZ

Contact: Jessica Vogel at jvogel@ncua.gov

Johnson announces HOPE NOW Hotline for struggling homeowners

In her leadership role with the MyMoney.gov website, NCUA Chairman JoAnn Johnson announced January 16 the HOPE NOW hotline (1-888-995-HOPE), a new feature on the main page of the MyMoney.gov website. The toll-free hotline offers consumers access to HUD-approved credit counselors who will provide important resources for struggling homeowners.

"I commend President Bush for putting forth pro-active efforts that focus on empowering homeowners with the information and resources they need to help them stay in their homes," said Chairman Johnson.

Among the measures to help homeowners in America, President Bush, in August 2007, directed Treasury

Secretary Henry Paulson and Housing and Urban Development (HUD) Secretary Alphonso Jackson to establish HOPE NOW as a cooperative effort of counselors, investors, and lenders that are working to maximize outreach efforts to homeowners in distress.

"It is critical that credit unions continue to protect their members by providing them with responsible lending products," stated Chairman Johnson. "Financial literacy serves as an important preventive measure for credit union members to avoid financial setbacks. The MyMoney.gov website is an excellent resource for credit unions and their members to remain equipped for this ever changing financial landscape."

Woodson becomes NCUA CFO

Mary Ann Woodson joined NCUA as chief financial officer (CFO) effective January 14, 2008. Former CFO Dennis Winans retired at year-end 2007.

As CFO, Woodson is responsible for the daily operations of the National Credit Union Share Insurance Fund (NCUSIF) and the NCUA Operating Fund, including the accounting and financial reporting functions and the administration of credit union operating fees and NCUSIF capitalization fees for both funds. She is also responsible for agency administrative functions including travel policies and programs, budget preparation and management, finance and accounting functions, accounts payable and payroll.

Woodson joins NCUA after serving as deputy CFO at the Department of Homeland Security (DHS), which includes 22 agencies that merged when DHS was established. Prior to joining DHS in 2004, Ms. Woodson was Budget Director of the Federal Bureau of Investigation, where her federal career began in 1979.

Mary Ann Woodson holds a BS in accounting from George Mason University. Familiar with credit unions, she served on the board of directors for the Justice Federal Credit Union for over 10 years and held various positions including Board secretary, treasurer, vice chairman and chairman. Ms. Woodson is married and has two children.

NCUA to host 20 credit union workshops in '08

The NCUA Office of Small Credit Union Initiatives is hosting 20 training workshops in cities across the country in 2008. Offered free to credit unions, the workshops will discuss the following current issues significant to credit unions:

- Updates from regional management
- Future of NCUA 5300 Call Reports
- Common BSA violations
- Evaluating third party relationships—due diligence
- Modifications to the CAMEL rating system
- Attracting and recruiting volunteers
- Expanding credit union services through partnerships

“NCUA’s goal in hosting our free workshops is to convey useful

information that helps answer questions and address relevant issues. I encourage credit unions to sign-up and actively participate in a local workshop. Each is designed to provide regulatory guidance and to promote open discussion of important initiatives that affect credit union operations and membership,” said Chairman JoAnn Johnson.

Credit unions can visit NCUA’s website to register and view the agenda and the most current information online at www.ncua.gov/CreditUnionDevelopment/Events/Index.htm.

Dates and locations are subject to change based on hotel availability. If you have additional questions, please email OSCUITraining@ncua.gov.

The 2008 workshop schedule follows:

March 15	Raleigh/Durham, NC
March 28	Richmond, VA
April 5	Columbus, OH
April 11	Philadelphia, PA
April 26	Portland, OR
May 30	Jacksonville, FL
June 7	Salt Lake City, UT
June 21	Houston, TX
June 24	Pittsburgh, PA
July 17	Minneapolis, MN
July 19	New York, NY
July 22	Alexandria, VA
August 16	Honolulu, HI
August 27	Nashville, TN
September 19	Chicago, IL
September 27	Los Angeles, CA
September 27	Syracuse, NY
October 4	Boston, MA
October 18	Buffalo, NY
October 18	New Orleans, LA

CAMEL Matrix being eliminated

NCUA held train-the-trainer sessions in Alexandria during December to ensure agency-wide changes to the examination program eliminating the CAMEL Matrix are consistently implemented.

Representatives from NCUA’s central office and five regions developed the training that will be delivered to NCUA examiners and state examiners in the first quarter of 2008. NCUA regional directors will coordinate training for representatives from the state supervisory authorities.

NCUA is eliminating the CAMEL Matrix for examinations with an effective date of December 31, 2007, and thereafter.

The discontinued matrix measured financial ratio results against static benchmarks for three CAMEL areas: (C) capital adequacy, (A) asset quality, and (E) earnings. Eliminating the matrix focuses the CAMEL evaluation on risk, consistent with NCUA’s risk focused examination program. The matrix has been an optional examiner analysis tool since 1995.

Eliminating the matrix addresses concerns some credit unions may target and measure performance against the matrix rather than focus on broader risk management, which could potentially lead to unsafe and unsound goals and poor



December 12, 2007 Alexandria, Va—Central and regional office participants at NCUA’s train-the-trainer sessions on eliminating the CAMEL Matrix.

business decisions. For example:

- The matrix benchmark for a code “1” capital adequacy component rating was a net worth to assets ratio equal to or exceeding 7 percent. In some cases, if risk is high and unmitigated, targeting the “1” benchmark may result in insufficient net worth relative to risk.
- Targeting delinquency levels to a matrix “1” rating under asset quality could limit risk based lending options and service to members.
- Striving for a “1” matrix rating for earnings could reduce service to

members, promote excessive fee structures, or encourage excessive risk taking to generate higher returns.

NCUA examiners now assign C, A, and E component ratings without a matrix following the same approach used for assigning (M) management and (L) liquidity. The practice of disclosing CAMEL component ratings and the overall rating in examination reports will continue. In the event CAMEL component or composite ratings change, examiners will explain the change to management.

continued on page 6



Hyland facilitates key examination issues webinar

NCUA Board Member Gigi Hyland facilitated a webinar January 29, 2008, entitled “Key Examination Issues for 2008: Evaluation of 3rd Party Relationships and Strategic Planning.” The webinar provided over 2,300 registered participants from credit unions and state leagues an opportunity to learn more about these key examination issues.

“Risk assessment, planning and due diligence relating to third party vendors is assuming a larger, more prominent role in credit union management,” noted Board Member Hyland. “I believe this webinar is an important part of overall NCUA efforts to highlight key examination issues and essential policies and procedures that ensure safe and sound operations. Credit unions need to be proactive in their planning process to ensure effective measurement, monitoring and controls are in place. Today’s session was a continuing step in the right direction.”

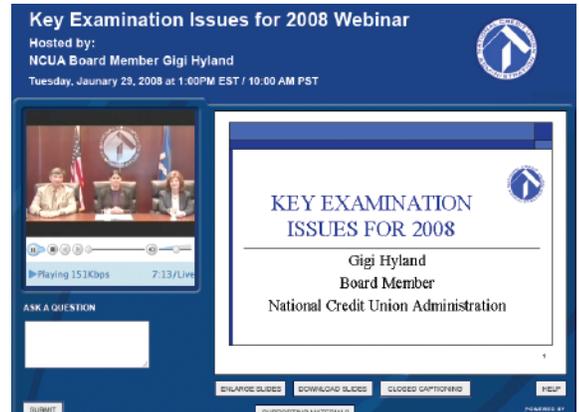
The webinar discussion featured examination issues for 2008, including:

- Practical implications of the recently released Letter to *Credit Unions on Evaluation Third Party Relationships 07-CU-13*, and
- Strategic planning considerations for management and board of directors. NCUA staff members Information

Systems Officer Dominick E. Nigro, Jr, and Supervisory Examiner, Economic Development Specialist Debra J. Tobin joined the seminar respectively discussing third party relationships and strategic risk and planning.

“I am very pleased to have our examination and strategic planning experts join me during this webinar,” said Board Member Hyland. “As a regulator, I believe that public comment and input is crucial, and this webinar was an excellent way to utilize the latest in Internet webcasting technology to provide a productive forum for discussion for credit union officials across America.”

The webinar will be available in approximately one month on NCUA’s



January 29, 2008, Alexandria, Va—Board Member Gigi Hyland, flanked by NCUA staff, prepares to moderate the examination issues webinar focusing on evaluation of third party relationships and strategic planning.

website, www.ncua.gov. In addition, a list of questions and answers submitted will be compiled and posted.

camel matrix

continued from page 5

Disclosing ratings helps facilitate an understanding of NCUA’s assessment of a credit union’s operation.

CAMEL ratings receive both internal and external scrutiny. NCUA receives an annual audit by an independent auditing firm and is subject to scrutiny from other government entities. Internally, NCUA’s

risk management practices and quality control processes monitor CAMEL component ratings and overall ratings.

Credit unions should direct CAMEL questions to your examiner, supervisory examiner, regional director or state regulator. In addition, per *NCUA Interpretive Ruling and Policy Statement (IRPS) No. 95-1*, credit unions may discuss CAMEL disputes with NCUA’s Supervisory Review Committee.